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# Auditing in the Shared Service World

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# Objectives of the Presentation

- Background and Context – Shared Services

- Boundary Objects within the context of "Organising between organisations"

- The role of Internal Audit and Boundary Objects in stabilising shared services – the 'Act of Assuring'.

- Internal Audit making the invisible – visible

- Delivered in an effort to blend realism, professionalism and academia

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# Background on the research

- Full title of research:

  *"The evolution and devolution of governance within the shared service networks in Local Government"*

- Internal audit is part of governance framework in shared services – additional paper and basis of this presentation

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# The Researcher

- This is an "insider researcher" model reviewing two case study local authorities

- The key methodology adopted is that of Czarniawska's (2008) 'follow-the-object' where each shared service is an object

- This presentation is built from 'Phase 1' running records review cross referenced to audit standards and other literature

- The research is sponsored by the case study organisations

- The researcher is the Head of Internal Audit at both case study organisations and part of a shared service (created by the researcher) - Autoethnographical

- There is interest in the research output from the sponsors, professional bodies, and the researcher for his PhD

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# What is a Shared Service

- Department of Communities and Local Government (2007) defines the shared service delivery at its widest as:

"...*one where two or more authorities work together to commission and/or deliver a service or function for the purposes of improving that service or function*...".
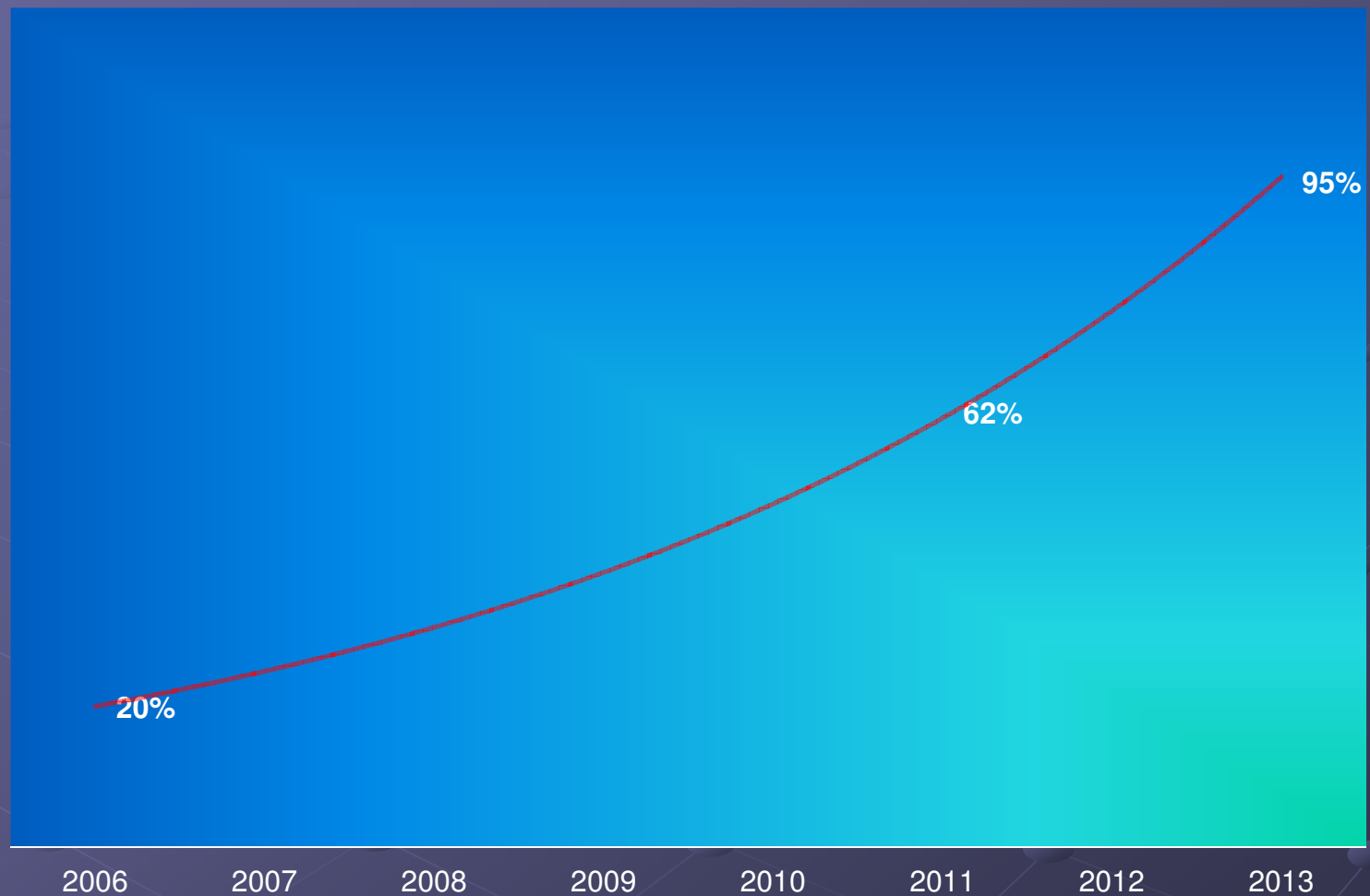
# What Services are Shared

Examples:

- Front facing:
  - Refuse collection and Recycling, Housing Benefits and Council Tax

- Back office:
  - Payroll, Treasury Management, Internal Audit, ICT

**Percentage of Local Authorities Sharing Services**

95%

62%

20%

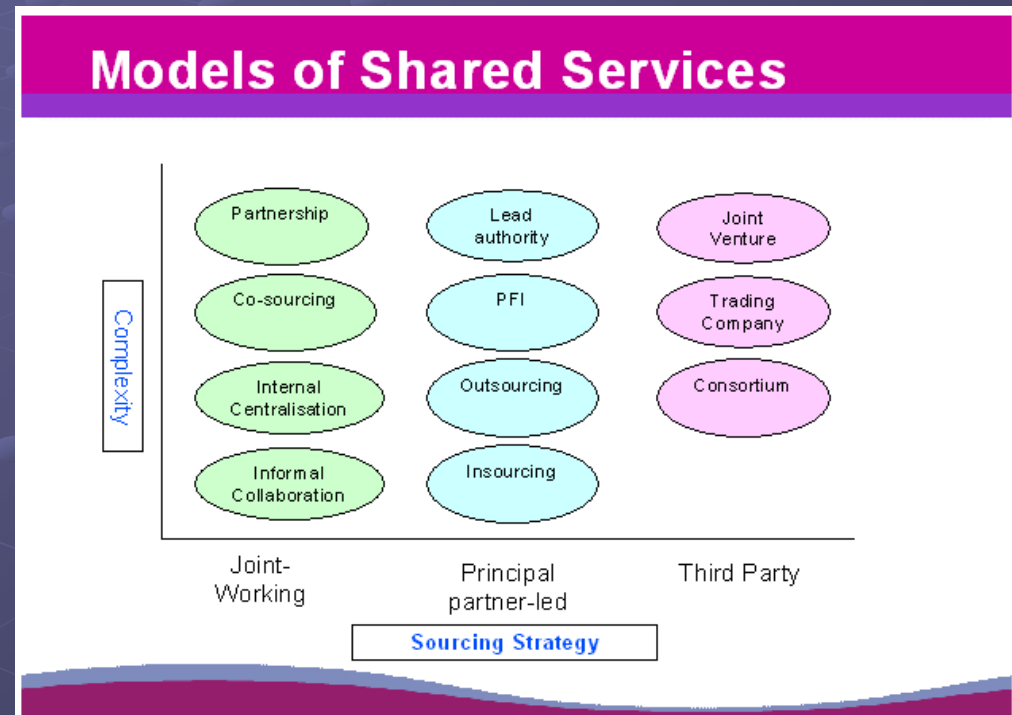2006   2007   2008   2009   2010   2011   2012   2013

Growth of shared services over the last 7 years

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# How many types are there?

- **Chartered Institute of Public Finance & Accountancy (CIPFA) in 2010 – identified 11 types**

- **Hybrids of the 11 types exist**



**Models of Shared Services**

Partnership | Lead authority | Joint Venture

Co-sourcing | PFI | Trading Company

Internal Centralisation | Outsourcing | Consortium

Informal Collaboration | Insourcing

Complexity

Joint-Working | Principal partner-led | Third Party

**Sourcing Strategy**

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# Shared Service Creation

- They are created by "management" and there can be officers and/or elected Members leading/involved in the process

- They have support / direction from Central Government, CIPFA and other significant influential parties

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# Guidance

- CIPFA & Chartered Institute of Internal Auditors (IIA) are just two of many bodies that offer guidance on shared services:
  - the risks,
  - the types, etc…
  - Some audit considerations

- BUT no one yet offers guidance on multiple shared services in single local authorities and the various phases the service goes through to get there.

- One of the key aspects of my work is looking at how Internal Audit can operate in between organisations and therefore help in the shared service environment.

# Case Study A & Case Study B

Number of Partners:

- Six

Number of Partners:

- Eight

Not all partners are the same for each service!

For example: legal services are shared at both Case Study organisations with only one partner in each case but different partners in both cases

# Models Used & Extent

- Contract
- SLA
- S101
- Company & Trading
- Secondment
- Informal
- Management Agreement
- Outsourced & Co-Sourced

- Single officers e.g CEO
- Just management e.g. Revs & Bens
- Just officers e.g. Legal
- Full service e.g. Internal Audit
- Co-sourced e.g. ICT

# Interdependency & Interference

- **SSa ~ SSd** – SSa employees hosted by Case Study B provides services to Company SSd

- **SSa ~ ICT** – SSa ICT systems hosted by Case Study A – moving to new host 1st April 2013 (not Case Study A or B)

- **ICT ~ Third Party** – ICT at Case Study B is partially provided by private third party company

- **SSc ~ SSb** – Case Study A SSc provides advice for SSb at Case Study A

- **SSe ~ SSd** – SSe provides services to SSd (Company)

- **SSe ~ SSa** – SSe provides services to SSa

- **SMT ~ SSd** – Director of Company SSd is a shared director at Case Study B & another authority
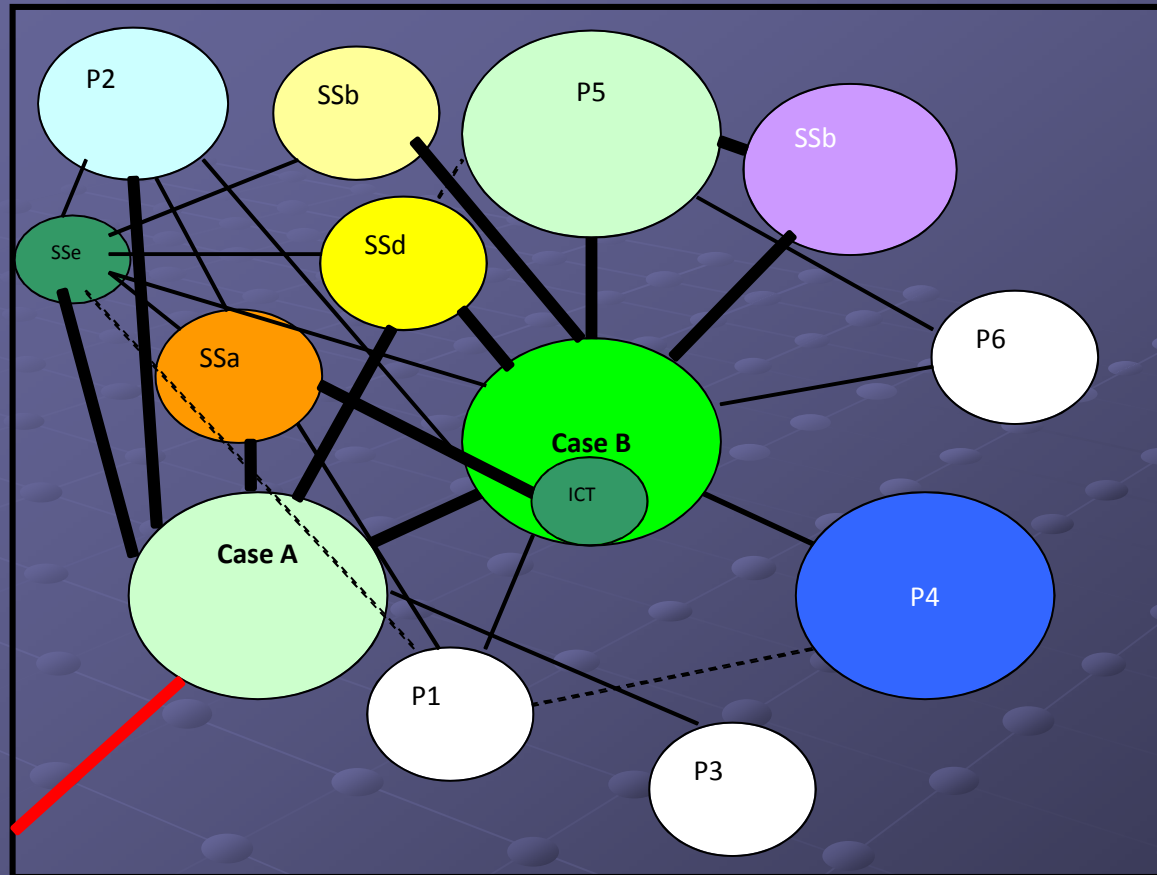
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# Network map of Case Study B

The web of connectors demonstrates the interaction between the shared services, each other and the partners

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# Where does internal audit fit in?
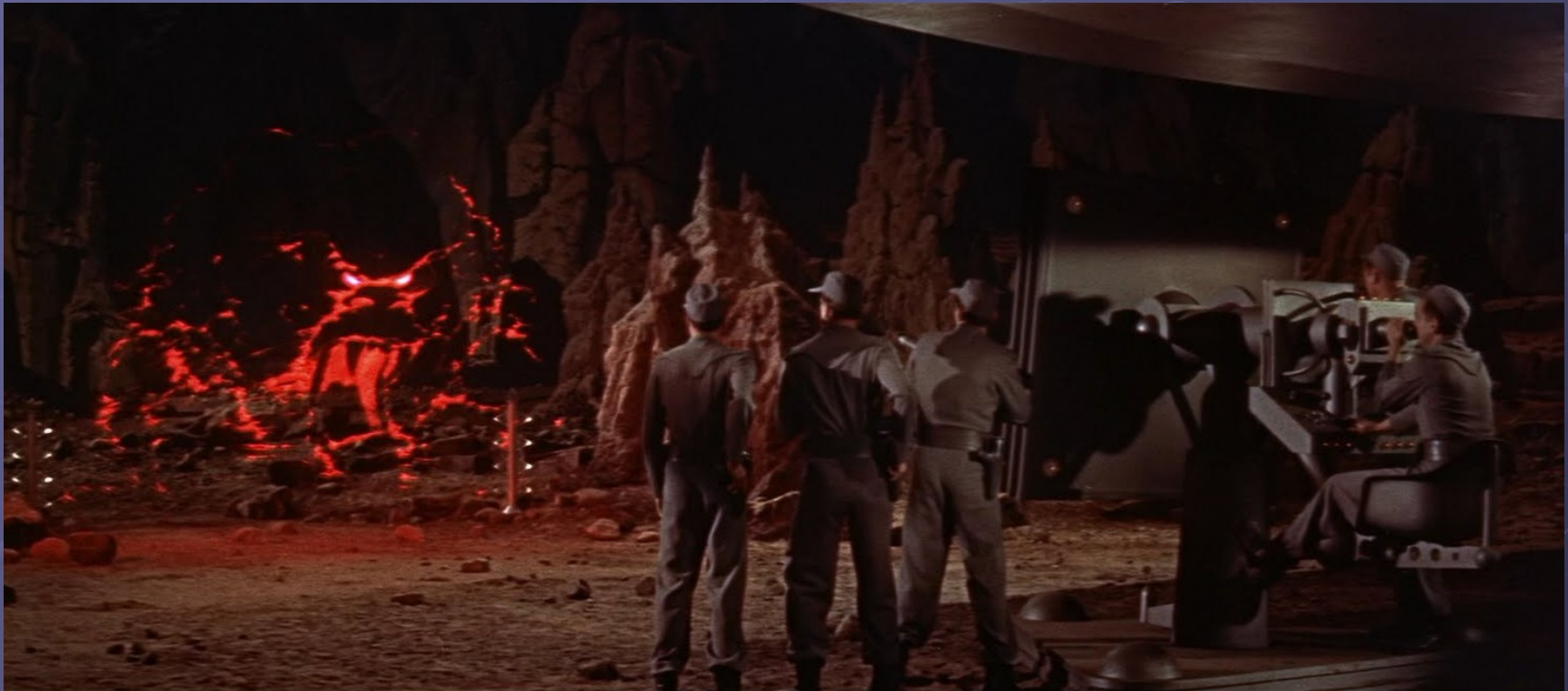


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# Shared Services & Monsters of the ID

## 1956 – Forbidden Planet

# Monster containment

- Why a 'Monster' – CIPFA (2013) refer to four key problem areas to consider in setting up a shared service [*Partner selection, staff buy-in, issues of ICT integration and standardisation, and programme and contract management*] – each of which can individually or together collapse a shared service project – and have a huge impact on staff

- In the 'Forbidden Planet' force-fields, lasers, and some bravery, were used to contain the monster – a beast created by the mind (*minds of management in the case of shared services*)

- My research to date on shared services is showing that:

  - Internal Audit can use many tools but arguably they seek "*Boundary Objects and Artifacts*" (the force-fields and lasers) and assure stakeholders that these are in place and working effectively

  - Internal Audit can be regarded as operating in an "**organising between organisations**" environment

# What is
# Organising between Organisations
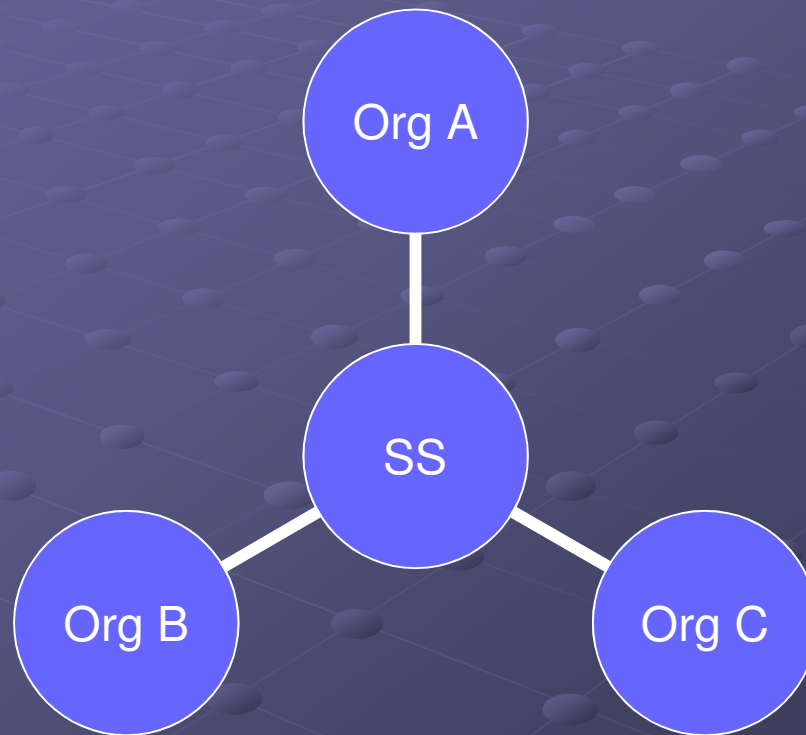
# Internal audit considerations in Shared Services

- Definition of Internal Audit:

"*Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve **an** organisation's operations. It helps **an** organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.*" (IIA 2013)

- What happens to control, governance and other aspects when there are big ones, small ones, or *more than one* of these shared services per organisation? And who covers the partner(s)?

- The '*Act of Assuring*' – the role the internal auditor plays

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# How to break down the shared service creation

- Phases of shared service development:
  - Concept to business case
  - Business case to implementation
  - Implementation to stability
  - Stability to cultural identity
  - Exit / collapse
- Different networks of people from different organisations at each stage and / or through stages

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# The shared service may exist in multiple phases

| Phase | Possible Boundary Objects | Governance | An assessment of a current shared service |
|---|---|---|---|
| 1 | Concept (Change Programme) to Business Case | Existing hierarchy decisions within existing organisations. No formal governance 'binding' the partners. Roles established in existing organisations | |
| 2 | Business case to implementation – the 'go live' point (temporal BO) | Existing hierarchy – project management – example Prince 2 methodology – representatives from each partner + specialists – establishment of roles linked to the project – new decision network. | SSa |
| 3 | Implementation to stability / structure (new roles in place but with new or possibly TUPE transferred personnel) Job descriptions, Structure charts | New network – change and benefit realisation actions (actions that start to deliver the benefits) and formal agreements e.g. S101 agreements. Establishment of roles linked to the new service – new hierarchy in the network emerging. Often inward looking i.e. getting fit for purpose. | SSa |
| 4 | Stability / Structure to cultural identity (new roles understood) New business cards, logos, websites | New network hierarchy – Delivering the service to the standard set by the new stable network in order to deliver agreed service. No longer inward looking and now fit for purpose. Network now fully crystallised and able to support growth. Own identity. | |
| 5 | Exit / change – post programme review reports | Collapse of governance, change of agreements, new partners, etc. Change of roles, loss of identity, disbanding of network, network collapse. | SSa |

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# Phase 1
# Concept to Business Case

- Conceived within an existing hierarchy
- Current organisational governance applies
- Network starts to emerge with initial actors
- Can be vague and visionary
- Some may just collapse
- Introduces the partners
- Can be sourced from Corporate Strategy, Change Programmes, Services Areas, etc
- Should eventually lead to engagement of Members and Senior Management for decision

# Phase 2
# Business Case to Final Implementation

- Phase 1 builds the business case, phase 2 sets out how to deliver it
- Governance moves into the actor network e.g. Programme Board and project management
- Prince 2, MSP etc
- Actors from shareholder groups (the partner organisations), often along with Legal, Finance, HR and Audit representatives

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# Phase 3
## Implementation to Stability / Structure

- Once the shared service is 'live' there is a period where the new 'entity' attempts to stabilise its local world, based on the structure determined by the previous phase(s)

- New lines of accountability have been created with the new entity

# Phase 4
## Stability / Structure to Cultural Identity

- In this phase the new structure or system (or both) has been fully implemented and the controls framework is stable. This means that the shared service is now 'fit for purpose' and delivering the agreed specification. The service is now able to refine the control framework.

- This phase is where the employees (with their new lines of accountability) understand and develop their roles and responsibilities

- In previous phases internal audit assurance work is hampered by the instability of the system/structures as the service changes through the various phases until stable.

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# Phase 5
# Exit / Change

- At any point in the process the project may cease or change significantly enough to trigger the phases 1-4 to start again. For example, entry of a new partner, change of service delivery model, change of host employer, collapse of shared service

- There may be requirement to undertake a post-collapse review or a 'lessons learnt' exercise to ascertain why it happened.

- There are different kinds of failure, and one that permits lessons to be learnt may be regarded as quite a useful kind of failure.

- Here the critical comment derived from the 'act of assuring' is the aspect of ensuring we do learn from this.

# Invisible vs Visible

So far the presentation has covered matters that can be invisible to the public and other interested parties.

They don't know the complexity of accountability, VFM or decision making – yet its public funds!!

Neyland (2007) covers this from the perspective of Academic Accountability Networks – and the invisible/visible information that internal auditors use
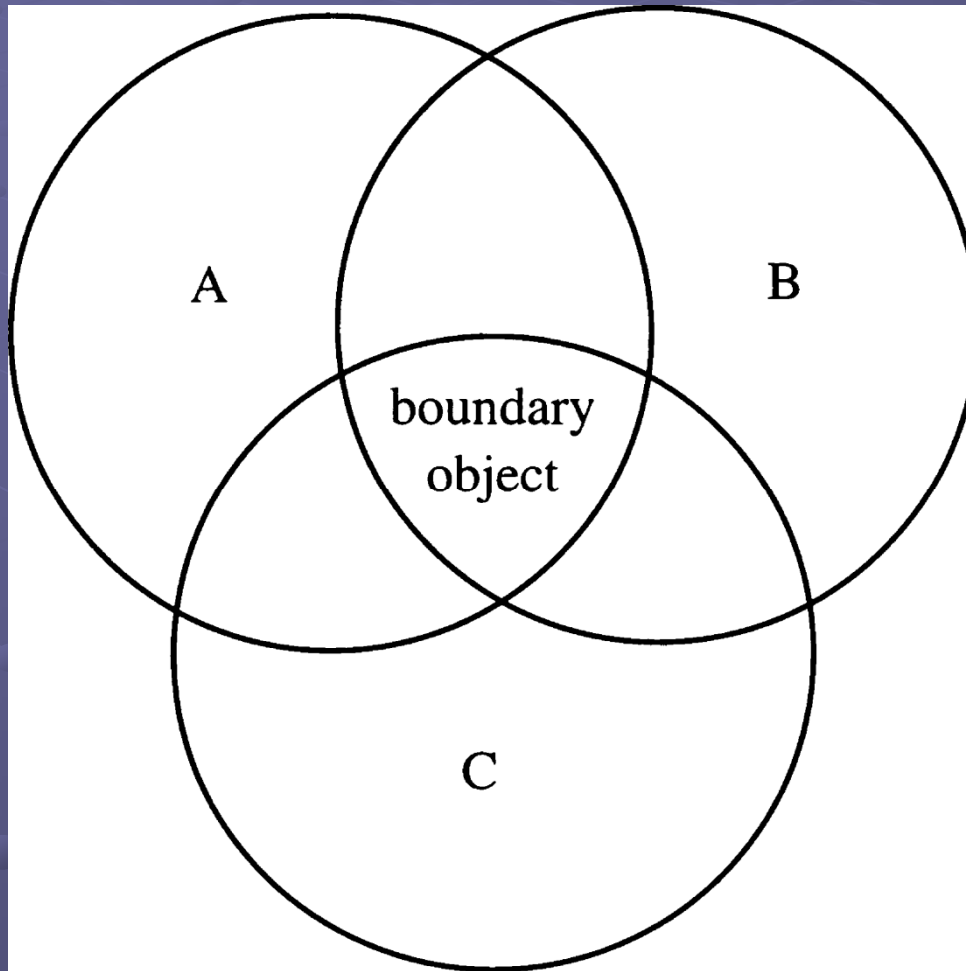
# What is a 'Boundary Object'

- Star & Griesemer (1989) define a BO as:
  - *"analytic concepts of those scientific objects which both inhabit several intersecting social worlds and satisfy informational requirements of each of them."*

- My definition – bringing together Neyland (2007) and Star & Griesemer (1989):

  - *"a device to help make the invisible, visible!...and auditable"*

# Boundary Objects or Artefacts – What are they

- Minutes of a meeting
- Business cases
- Gantt Charts
- Project plans
- Section 101 agreements
- Terms of Reference
- Job Descriptions
- Risk Registers & Appetite

- Business cards
- Websites
- Letterheads
- Systems
- Pictures
- Uniforms
- Invoices
- Behaviour & Language…!

# Where are the Boundary Objects



A

B

boundary object

C

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- The BO's are located at the intersection of social worlds (Fleischman 2006)

- Picture taken from Fleischmann 2006

# Boundary Object Typology

- There are various types of BO in use in the various shared services. Star & Griesemer (1989) offer four types of BOs :
    - Repositories            – Libraries e.g. Huddle
    - Ideal Type            – Diagrams e.g. Rich Pictures
    - Coincident Boundaries    - Maps e.g. County/Districts overlaid with network infrastructure
    - Standardised Forms      – report templates e.g. progress reports

- However, in this research the BOs are still being assessed for definition but as an example of typology:
    - Temporal – Gantt charts, Project plans
    - Legal – S101, Secondment, Collaboration agreement, Articles of Association (company)
    - Cultural – business cards, letterheads, websites logos

# BOs and Artefacts Business Cards



- 2008

- 2009

- 2010

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# Boundary Objects
# What do they do?

- Helps contain the shared service
- Helps to translate change
- Helps to 'bind' individuals in the network
- Captures events and stories
- Helps to stabilise the network
- Can be wrapped around a network to **create a new organisation** (Czarniawska 2006)
- Provides a way for internal audit to apply its original definition – "…an organisation…"

# Where BOs don't exist

- Shared service 'X' has no business case or legal agreement – so what?
  - Unable to demonstrate 'improvement' in service as no comparator in place
  - Uncertain of inter-partner charging as not set out in agreement
  - Unclear on strategic service direction
  - Possibly acting 'beyond legal powers'
  - Can sell the service as successful on original performance indicators – which are no longer relevant
  - The public cannot hold anyone to account for service failure as it is lost in a 'black hole' of organisations and ownership and accountability webs – against Localism Act 2011 principles
  - Tasks and projects are subject to scope creep and misinterpretation

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# The Internal Auditor
## - *Indiana Jones Concept* -
## (Explorer / Archaeologist)

- Seeks out the BO's and artefacts ~ makes the invisible visible
- Compares the artefacts to BO's and vice versa – and cross refers to "organisational" objectives
- Compares actual events to temporal BO's and artefacts
- Determines the key stakeholders and accountable parties based on BO's
- Shares findings with fellow explorers e.g. External Audit
- Reports on BO's to stakeholder assurance seekers covering such issues as deviation
- Help management and other parties to take stock of BO's and review the shared service

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**Internal Auditor**

BO
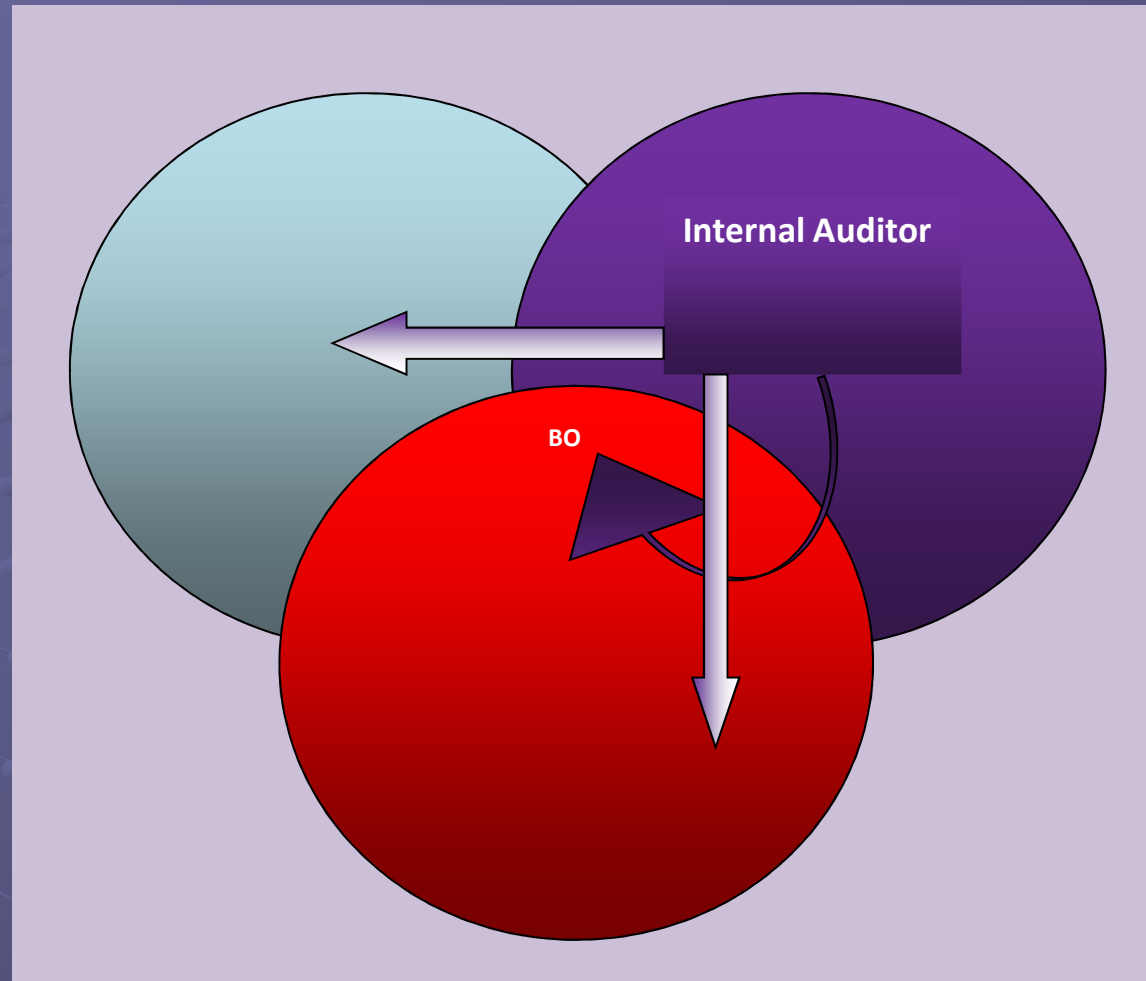
Internal Auditor in partner 1 is able to see BO and provide assurance to partner 2 & 3

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# Time & Space

- Audits are based on evidence:
  - Available at the time
  - At a certain location or from a certain perspective
- Temporal issues – [non-linear]
  - Crisis and calm (Kairotic time)
  - Cabinet / SMT decisions (Chronological time)
- From whose perspective
  - Audit Committee
  - Senior Management
  - Fellow auditors
  - The public

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# The perfect storm

- **The same people,**
- **The same space,**
- **The same systems,**
- **The same time**

# How does internal audit get there?

- Senior management engagement
- Change programme awareness
- Establish Terms of Reference and roles within the team and shared services
- Audit Committee education & engagement
- Safeguard independence and objectivity
- Identify stakeholders as early as possible

# Should Audit be involved?

- If we take the basics out of the CIPFA Role of the Head of Internal Audit (2010) and the new Public Sector Internal Audit Standards (2013) there is a clear rationale for the HIA and the internal auditors to get involved at various points in a shared service life cycle.

- The question is how and how much…? If you get too involved, say good bye to independence and objectivity; if you are not involved, then you are missing some pretty significant risks from the audit plan.

- The decision is yours!!

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# Conclusion

- The research to date has enabled an interesting research subset of the relationship between Internal Audit and Boundary Objects to be considered

- It has shown that Internal Audit can use Boundary Objects to help assess and stabilise the shared service

# There is more to come

- This is only part of the story, but hopefully a useful insight into the research to date?

- Any questions?

- Thank you for your time.

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# Relevant Standards & References

- Public Sector Internal Audit Standards – effective 1st April 2013
- CIPFA The role of the head of internal audit in public service organisations 2010
- IIA Professional Practices Framework

# Relevant Standards

- PSIAS in particular:
  - Ethics :
    - **Integrity** - *1.4 Shall respect and contribute to the legitimate and ethical objectives of the organisation*

    - **Objectivity** - *2.1 Shall not participate in any activity or relationship that may impair or be presumed to impair their unbiased assessment. This participation includes those activities or relationships that may be in conflict with the interests of the organisation.*

    - **Confidentiality** - *3.1 Shall be prudent in the use and protection of information acquired in the course of their duties.*

    - **Competency** - *4.1 Shall engage only in those services for which they have the necessary knowledge, skills and experience.*

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# Relevant Standards

- **1000 Purpose, Authority and Responsibility**
  - *Interpretation:*
    - The internal audit charter is a formal document that defines the internal audit activity's purpose, authority and responsibility. The internal audit charter establishes the internal audit activity's <u>position within the organisation</u>, including the nature of the chief audit executive's functional <u>reporting relationship with the board</u>; <u>authorises access to records, personnel and physical properties</u> relevant to the performance of engagements; and defines the scope of internal audit activities. <u>Final approval of the internal audit charter resides with the board</u>.

# Relevant Standards

- **1111 Direct Interaction with the Board**
  - The chief audit executive must communicate and interact directly with the board.

- **2010 Planning**
  - The chief audit executive must establish risk-based plans to determine the priorities of the internal audit activity, consistent with the organisation's goals.

- **2050 Coordination**
  - The chief audit executive should share information and coordinate activities with other internal and external providers of assurance and consulting services to ensure proper coverage and minimise duplication of efforts.

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# Relevant Standards

- **2230 Engagement Resource Allocation**
  - Internal auditors must determine appropriate and sufficient resources to achieve engagement objectives based on an evaluation of the nature and complexity of each engagement, time constraints and available resources.
- **2440 Disseminating Results**
  - The chief audit executive must communicate results to the appropriate parties.
  - *Interpretation:*
  - The chief audit executive is responsible for reviewing and approving the final engagement communication before issuance and deciding to whom and how it will be disseminated. When the chief audit executive delegates these duties, he or she retains overall responsibility.

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# Relevant Standards

- The Head of Internal Audit in a public service organisation plays a critical role in delivering the organisation's strategic objectives by:

  - championing best practice in governance, objectively assessing the adequacy of governance and management of existing risks, commenting on responses to emerging risks and proposed developments; and

  - giving an objective and evidence based opinion on all aspects of governance, risk management and internal control.

- To perform this role the Head of Internal Audit:

  - must be a senior manager with regular and open engagement across the organisation, particularly with the Leadership Team and with the Audit Committee;

  - must lead and direct an internal audit service that is resourced to be fit for purpose; and

  - must be professionally qualified and suitably experienced.

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